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EXCISE

D12

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INQUIRE=DOC15D
ITEM NO=00204015

ENVELOPE

CDSN = LGX670 MCN = 91211/23729 TOR = 912111520
PTTCZYUW RUEKJCS4894 2111521-CCCC--RUEALGX.
ZNY CCCCC

HEADER

P 301521Z JUL 91

FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC

RUENAAA/CNO WASHINGTON DC

RUEAHQA/CSAF WASHINGTON DC

RUEADWD/PTC WASH DC

RUSNNOA/USCINCEUR VAIHINGEN GE

RUFGAID/USEUCOM AIDES VAIHINGEN GE

RUCQVAB/USCINCSOC INTEL DPS CEN MACDILL AFB FL

RUCJACC/USCINCCENT MACDILL AFB FL//CARA//

RUWSMXI/MAC INTEL CEN SCOTT AFB IL//IN//

RUEOACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//

RHCGSRB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//

RUEALGX/SAFE

P 301420Z JUL 91

FM AMEMBASSY ABU DHABI

TO RUEHC/SECSTATE WASHDC PRIORITY 2903

INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

RUEHIL/AMEMBASSY ISLAMABAD 1613

RUFHLD/AMEMBASSY LONDON 4591

RUEHKO/AMEMBASSY TOKYO 1020

RUFHBG/AMEMBASSY LUXEMBOURG 0027

RUFHFR/AMEMBASSY PARIS 2608

RUEHKF/AMCONSUL KARACHI 3128

RUEHHK/AMCONSUL HONG KONG 0138

RUCPDC/USDOC WASHDC

RUEATRS/SECTREASURY WASHDC

BT

CONTROLS

C O N F I D E N T I A L SECTION 01 OF 05 ABU DHABI 04894

FOR L - J. OSBORNE, ALSO FOR NEA

DEPARTMENT PLEASE PASS FEDERAL RESERVE

E.O. 12356: DECL:OADR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, ECON, TC

SUBJECT: BCCI UPDATE

REF: STATE 249039

DEPARTMENT OF STATE

() RELEASE () DECLASSIFY
(X) EXCISE (X) DECLASSIFY
() DENY IN PART
() DELETE Non-Responsive Info
FOIA Exemptions B1, B6
PA Exemptions

IS/FPC/CDR

DRP Date 9/5/94

MR Cases Only:

EO Citations

TS auth

() CLASSIFY () S or () C

() DOWNGRADE TS to () S or () C

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1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: NOT UNEXPECTEDLY, LOCAL AUTHORITIES HAVE CENSORED MUCH OF THE FOREIGN NEWSPAPER COVERAGE OF THE BCCI AFFAIR, PARTICULARLY REPORTS OF POSSIBLE INVOLVEMENT OF SEVERAL PROMINENT LOCAL SCAIKHS. THERE HAS BEEN LITTLE DETAILED REPORTING (AND NO OFFICIAL REACTION) THUS FAR ON YESTERDAY'S INDICTMENT OF BCCI AND ITS TWO FOUNDERS BY A NEW YORK GRAND JURY AND THE FEDERAL RESERVE'S USD 200 MILLION FINE AGAINST THE BELEAGUERED BANK. IN THE ABSENCE OF PRINT NEWS, FAX MACHINES, FOREIGN RADIO BROADCASTS AND, MOST IMPORTANT, THE RUMOR MILL HAVE FILLED THE GAP. THE MOST INTERESTING STORIES MAKING THE ROUNDS INCLUDE: THE UAE GOVERNMENT (I.E., SHAIKH ZAYED) WILL MAKE UP LOSSES OF SMALL DEPOSITORS; THE UAEG WILL COVER THE LOSSES OF ALL UAE DEPOSITORS; TWO ABU DHABI BUSINESSMEN HAVE HAD HEART ATTACKS IN THE WAKE OF THE BCCI DEBACLE

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THE PRESS REPORTS THAT SMALL DEPOSITORS IN BCCI'S LOCAL BRANCHES WILL SOON BE PAID. WHILE THERE IS CONSIDERABLE LOCAL CRITICISM OF THE BANK OF ENGLAND'S JULY 5 ACTION TO CLOSE DOWN THE BANK AS BEING TOO HASTY, ANTI-ARAB, OR ANTI-ISLAMIC AND STRONG INTEREST IN WHETHER BRITAIN'S HIGH COURT WILL ACQUIESCE TO THE BANK'S UK OPERATIONS BEING LIQUIDATED BY THE BANK OF ENGLAND, THERE IS ALSO GENERAL DISMAY, TINGED WITH ADMIRATION FOR THE PERPETRATORS, AT HOW BCCI COULD CHEAT SO MANY PEOPLE OF SO MUCH FOR SO LONG. END SUMMARY.

PRESS COVERAGE

3. BCCI DEVELOPMENTS WERE FRONT PAGED IN ALL THREE OF THE UAE'S ENGLISH LANGUAGE PAPERS ON JULY 30. THE EMIRATES NEWS AND THE GULF NEWS CARRIED ROUGHLY SIMILAR REUTERS WIRE SERVICE STORIES DESCRIBING THE JULY 29 INDICTMENTS OF BCCI AND ITS TWO FOUNDERS, AGHA HASAN ABEDI AND SWALEH NAQVI, BY A NEW YORK GRAND JURY FOR DEFRAUDING DEPOSITORS OF BILLIONS OF DOLLARS AND THE FEDERAL RESERVE'S USD 200 MILLION DOLLAR LAWSUIT AGAINST THE ABU DHABI-BASED BANK. THE STORY ALSO MENTIONED CURRENT DISCUSSIONS BETWEEN BCCI LAWYERS AND THE BANK OF ENGLAND IN A COURT HEARING IN LONDON ABOUT WHETHER THE BELEAGUERED BANK'S UK OPERATIONS SHOULD BE LIQUIDATED.

4. NOT SURPRISINGLY, ANY REFERENCE THE REUTERS REPORT MAY HAVE HAD TO BCCI'S 77 PERCENT OWNERSHIP BY PRESIDENT ZAYED AND OTHER ABU DHABI ROYAL FAMILY

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MEMBERS OR THE INVOLVEMENT OF SENIOR UAE OFFICIALS IN POSSIBLY IMPROPER ACTIVITIES WAS DROPPED.

5. A KHALEEJ TIMES STORY FOCUSED ON EFFORTS TO SET UP AN EMERGENCY AID PACKAGE FOR BCCI DEPOSITORS IN THE UK BEFORE TODAY'S DEADLINE FOR A HIGH COURT RULING ON LIQUIDATING THE BANK. THE FEDERAL RESERVE ACTION AND MANHATTAN DISTRICT ATTORNEY ROBERT MORGENTHAU'S ANNOUNCEMENT OF BCCI INDICTMENTS RECEIVED PASSING MENTION AT THE END OF THIS ARTICLE. INTERESTINGLY, THE TIMES CHOSE TO HIGHLIGHT ON ITS FRONT PAGE A LONDON SUNDAY TIMES APOLOGY TO UAE DEFENSE MINISTER MOHAMMED BIN RASHID FOR MAKING AN ERRONEOUS REFERENCE TO HIM IN A RECENT STORY ON BCCI.

LOCAL BCCI DEPOSITORS MAY BE PAID SOON

6. THE KHALEEJ TIMES ALSO RAN A STORY, ATTRIBUTED TO A SENIOR ABU DHABI BANKING OFFICIAL, THAT "SMALL"

/***** BEGINNING OF SECTION 002 *****/
ACCOUNT HOLDERS IN CLOSED BCCI BRANCHES IN THE UAE WILL GET THEIR MONEY SOON. THE UNNAMED OFFICIAL SAID THAT THOSE WITH ACCOUNTS WITH LESS THAN 250,000 DIRHAMS (USD 68,100) WOULD RECOVER THEIR MONEY "SOON." HE DESCRIBED THIS AS THE "FIRST STEP" IN SOLVING THE BCCI CRISIS IN ABU DHABI. LOCAL BANKERS HAVE ESTIMATED THAT DEPOSITS IN THE EIGHT BCCI BRANCHES IN THE UAE ARE AT BETWEEN USD 1.2-2 BILLION, WITH SMALL DEPOSITORS ACCOUNTING FOR 20 PERCENT OF THE TOTAL. THE ARTICLE SAID THAT A MAJORITY OF BCCI DEPOSITS IN THE UAE ARE HELD BY GOVERNMENT INSTITUTIONS. IT MENTIONED A UAE FINANCE MINISTRY ANNOUNCEMENT THAT GOVERNMENT EMPLOYEES WHO WERE PAID THROUGH BCCI CAN CASH THEIR JULY CHECKS AT THE NATIONAL BANK OF ABU DHABI OVER THE NEXT TWO DAYS. A FRONT PAGE ARTICLE IN THE ARABIC VERSION OF THE KHALEEJ TIMES (AL KHALEEJ) PROVIDED DETAILS ON THE N.Y. INDICTMENTS AND THE FEDERAL RESERVE ACTION BUT MADE NO MENTION OF ANY CONNECTION WITH THE EMIRATES. THE BCCI STORY IN AL ITTIHAD DID NOT MENTION THE U.S. ACTIONS AND CONCENTRATED ON EFFORTS TO HELP LOCAL BCCI DEPOSITORS.

7. THE GULF NEWS CARRIED A STORY ON BCCI'S LOCAL SITUATION WHICH PROVIDED SOME DETAILS NOT IN THE KHALEEJ TIMES ARTICLE. IT INDICATED THAT A JULY 21 ORDER ISSUED BY THE ABU DHABI FEDERAL COURT OF FIRST INSTANCE IS SAID TO HAVE NOMINATED ALI SAEED AL SHARHAN FROM THE STATE AUDIT INSTITUTION AND FOUR OTHERS (NFI) AS THE COURT RECEIVER FOR THE UAE

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OPERATIONS OF THE BANK. A REPRESENTATIVE OF THE ACCOUNTING FIRM OF TOUCHE ROSS IS EXPECTED TO COME TO ABU DHABI TO FORMALIZE ARRANGEMENTS BETWEEN TOUCHE ROSS AS THE INTERNATIONAL LIQUIDATOR AND AM SHARHAN AS THE LOCAL RECEIVER. THE STORY GOES ON TO SAY THAT A TOUCHE ROSS TEAM ALREADY IN ABU DHABI IS SAID TO BE HAMSTRUNG BY LEGAL RESTRICTIONS DENYING THEM ACCESS TO LOCAL DOCUMENTS AND RECORDS FROM LOCAL BCCI BRANCHES, PERMITTING THEM TO RELY ONLY ON VERBAL INFORMATION. FINALLY, THE STORY REFERS TO AN AL KHALEEJ REPORT THAT A SPECIAL COMMITTEE FORMED LOCALLY TO DISCUSS BCCI'S UAE OPERATIONS HAVE COMPLETED A REPORT ASSESSING THE BANK'S LOCAL ASSETS AND LIABILITIES AND MAKING RECOMMENDATIONS ON DEPOSITORS' ACCOUNTS AND PRESENTED IT TO "THE CONCERNED PARTIES." IT IS UNCLEAR WHO PREPARED THIS REPORT.

A BLAST AGAINST THE BANK OF ENGLAND

8. THE ARABIC PRESS HAS PUBLISHED A NUMBER OF ARTICLES THIS WEEK WHICH HAVE BEEN EXTREMELY CRITICAL OF THE WAY THAT UK AUTHORITIES HAVE HANDLED THE BCCI AFFAIR. THEY HAVE PAINTED A PICTURE OF DECEPTION AND BETRAYAL BY THE BRITISH WHO DECEIVED BCCI'S MAJOR STOCKHOLDERS (I.E., SHAIKH ZAYED AND OTHER SENIOR UAE OFFICIALS) INTO BELIEVING THEY WOULD BE ALLOWED TO REORGANIZE THE BANK'S STRUCTURE. INSTEAD, THE BRITISH COURTS AGREED TO ONLY AN EIGHT DAY DELAY BEFORE FINALLY DECIDING WHETHER TO CLOSE THE BANK IN THE UK. PRESIDENTIAL ADVISER GHANEM AL-MAZROUI WAS QUOTED IN AL KHALEEJ AS SAYING THAT "THE BEHAVIOR OF

/***** BEGINNING OF SECTION 003 *****/

THE BANK OF ENGLAND LED TO THE DESTRUCTION OF A PLAN THAT STOCKHOLDERS THOUGHT TO BE WELL PREPARED AND WORKABLE IN ORDER TO ENSURE THE FUTURE OF BCCI AND TO PROTECT THE INTERESTS OF DEPOSITORS AND EMPLOYEES." A JULY 29 EDITORIAL IN THE SAME PAPER USED EQUALLY HARSH LANGUAGE IN STRONGLY CRITICIZING THE BRITISH ACTION.

THE RUMOR MILL

9. IN DUBAI, NO ONE IS CERTAIN OF THE EXTENT OF THE DAMAGE FROM THE BCCI CLOSURE. LOCAL AUTHORITIES HEAVILY CENSOR FOREIGN NEWSPAPER AND MAGAZINE COVERAGE OF THE AFFAIR (THE RECENT TIME MAGAZINE

ISSUE WITH ITS BCCI COVER STORY NEVER APPEARED LOCALLY). THIS FORCES PEOPLE TO RELY ON ARTICLES FAXED FROM ABROAD, FOREIGN NEWS BROADCASTS AND THE EVER ACTIVE RUMOR MILL. THE RUMOR MILL, FED BY DOMESTIC AND FOREIGN SOURCES, HAVE PRODUCED SOME REASONABLY ACCURATE PRODUCTS AND SOME REPORTS IMPOSSIBLE TO VERIFY. FOR EXAMPLE, IT IS KNOWN THAT THE RULERS OF AJMAN AND FUJAIRAH WERE SOMEHOW INVOLVED IN BCCI'S TAKEOVER OF WASHINGTON'S FIRST AMERICAN BANK. IT IS ALSO KNOWN THAT BCCI MADE FICTITIOUS LOANS TO LOCAL NOTABLES, WITHOUT THEIR KNOWLEDGE, IN ORDER TO REDIRECT FUNDS.

10. OTHER REPORTS ARE HARD TO VERIFY.

B1

OTHER REPORTS SAY THAT THE DUBAI MUNICIPALITY HAS THREE TO FOUR HUNDRED MILLION DIRHAMS (USD 81-109 MILLION) DEPOSITED IN BCCI AND WILL HAVE TO INCREASE LOCAL FEES IN ORDER TO PAY ITS BILLS. STILL OTHER REPORTS SAY THAT THE UAE (I.E., SHAIKH ZAYED) WILL EVENTUALLY MAKE UP THE LOSSES OF SMALL DEPOSITORS (AS CLAIMED BY THE PRESS).

WHOSE FAULT?

/***** BEGINNING OF SECTION 004 *****/

11. SOME VICTIMS ARE REPEATING THE CLAIMS OF PAKISTANI JOURNALISTS AND THEIR DUBAIAN FRIENDS THAT BCCI'S FAILURE IS JUST ANOTHER ATTEMPT BY THE WEST TO DISCREDIT ISLAM, THE THIRD WORLD, AND ENTERPRISING PHILANTHROPISTS SUCH AS AGHA HOSEIN ABEDI. OTHERS ARE MORE REALISTIC AND SPEAK ALMOST ADMIRINGLY OF HOW BCCI WAS ABLE TO DUPE SO MANY PEOPLE FOR SO LONG.

12. _____ TOLD CONGEN THAT HE AND HIS BROTHER HAD ALMOST FIVE MILLION DOLLARS IN BCCI. HE SAYS THAT BCCI OFFERED _____ SERVICES AND FACILITIES WHEN OTHER BANKS WOULD NOT TOUCH THEIR MONEY.

_____ SISTER-IN-LAW SAYS SHE HASN'T SLEPT FOR TWO WEEKS BECAUSE OF HER LOSSES. WHEN SHE FINALLY SLEEPS, SHE DREAMS OF ENORMOUS, SHUTTERED BANK BUILDINGS.

SECRETS OF SUCCESS

13. IN THEIR MOST HONEST MOMENTS, THE MERCHANT VICTIMS HERE ADMIT THAT BCCI TRAPPED THEM BY USING GREED, FLATTERY, AND A FLASHY, PROSPEROUS EXTERIOR.

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B6

ALTHOUGH THEY KNEW IN THEIR HEARTS THAT BCCI WAS SHAKY, THE BANK OFFERED THEM A LEVEL OF SERVICE AND PERSONAL ATTENTION UNHEARD OF AT THE COMPETITION. IT ALSO OFFERED INTEREST RATES SEVERAL POINTS HIGHER THAN OTHER BANKS, AN IMPORTANT CONSIDERATION TO SOMEONE WITH LARGE FORTUNES.

14. HAD A SIMPLER EXPLANATION FOR BCCI'S SUCCESS: "THEY WERE PIMPS", HE SAID, "BUT THEY WERE GOOD PIMPS." HE CLAIMED THAT A SPECIAL DEPARTMENT OF THE BANK SUPPLIED HIGH-RANKING VISITORS TO LONDON WITH ALL SORTS OF PERSONAL SERVICES, INCLUDING PROSTITUTES, FROM A SPECIAL DIVISION OF THE BANK. BY PROVIDING ITS CUSTOMERS SUCH AS A RANGE OF SERVICES, BCCI GUARANTEED ITS SUCCESS.

B1, B6

15. AT THE SAME TIME, MANY LOCAL VICTIMS WENT ALONG WITH BCCI BECAUSE DEEP DOWN THEY BELIEVED THAT IF WORST CAME TO WORST, SHAIKH ZAYED WOULD NOT ALLOW THE COLLAPSE OF A BANK OF WHICH HE OWNED MOST OF THE SHARES. THEY NOW ADMIT THAT, IN EFFECT, THEY EXPECTED A FREE RIDE AT ZAYED'S EXPENSE.

COMMENT: THE FACADE REMAINS INTACT

16. IT IS DIFFICULT TO JUDGE THE TRUE EXTENT OF HARDSHIP IN THE UAE CAUSED BY THE BCCI CLOSURE. THERE ARE REPORTS THAT CUSTOMERS ARE UNABLE TO GET PERSONAL VALUABLES AND DOCUMENTS STORED IN BCCI SAFETY DEPOSIT BOXES. THERE ARE REPORTS THAT CONTAINERS OF GOODS ARE STACKING UP IN DUBAI PORT BECAUSE NO ONE CAN CLEAR THE SHIPPING DOCUMENTS AND OTHER STORIES THAT THAT OFFICES, COMPANIES, AND OTHER INSTITUTIONS ARE IN SERIOUS TROUBLE BECAUSE THEIR MONEY WAS TIED UP IN BCCI ACCOUNTS. BUT DUBAI'S TRADE HAS NOT COLLAPSED; THE OTHER BANKS ARE STILL OPERATING; AND THE DUBAI SHAIKHS HAVE SURVIVED THE SCANDAL AFTER THE LOCAL PAPERS CARRIED FRONT PAGE REPORTS OF UK NEWSPAPERS' APOLOGIES TO DUBAI'S SHAIKH MUHAMMAD BIN RASHID.

17. WE HAVE NOT YET BEEN APPROACHED BY THE UAEG OR INDIVIDUAL SHAIKHS ABOUT YESTERDAY'S ACTIONS IN NEW YORK AND WASHINGTON. THE EMBASSY HAS RECEIVED SOME PHONE CALLS FROM MIDDLE EAST-BASED REPORTERS OF AP-DOW JONES, THE FINANCIAL TIMES AND THE DAILY TELEGRAPH, ASKING IF THE USG HAS REQUESTED THAT MR. NAQVI, PRESUMED TO BE IN THE UAE, BE RETURNED TO THE U.S. FOR TRIAL. WE REFERRED ALL CALLERS TO THE

/***** BEGINNING OF SECTION 005 *****/

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DEPARTMENT FOR COMMENT. EMBASSY COMMENT: WE ARE
UNAWARE OF ANY U.S.-UAE EXTRADITION TREATY. END
COMMENT.

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ADMIN
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